

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3474

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E.O. 11652: N/A

TAGS: EFIN, IS

SUBJECT: BOI GOVERNOR DESIGNATE DETAINED

REF: TEL AVIV 6785

1. BANK OF ISRAEL (BOI) GOVERNOR DESIGNATE ASHER YADLIN WAS DETAINED BY POLICE FOR 15 DAYS ON OCT. 19 ON SUSPICION OF BRIBERY AND FRAUD. DETENTION FOLLOWS EXTENSIVE POLICE INVESTIGATION DURING LAST TEN DAYS WHICH HAS VIRTUALLY DOMINATED ISRAELI MEDIA. YADLIN WAS SUSPENDED AS HEAD OF KUPAT HOLIM, AND ENTIRE AFFAIR IS TAKING ON PROPORTIONS OF MAJOR SCANDAL.

2. OCT. 17, GOI CABINET POSTPONED A DECISION ON ASHER YADLIN'S APPOINTMENT AFTER RECEIVING LGAL OPINION FROM ATTORNEY GENERAL BARAK REPORTEDLY DETAILING SIX INSTANCES OF YADLIN'S INVOLVEMENT IN POSSIBLY ILLEGAL ACTIVITIES. BARAK REPORTED THAT TESTIMONY AND EVIDENCE SUBMITTED TO DATE WOULD INDICATE A PRIMA FACIE CASE FOR CRIMINAL CHARGE AND THEREFORE INVESTIGATION WOULD HAVE TO CONTINUE. THUS INVESTIGATION WOULD NOT BE COMPLETED BEFORE NOV. 1 WHEN TERM OF INCUMBENT BOI GOVERNOR EXPIRES.

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3. YADLIN WAS GIVEN OPPORTUNITY TO RESPOND TO BARAK'S

REPORT BEFORE CABINET'S DECISION. IN A LETTER TO BARAK, YADLIN EMPHASIZED HIS COMPLETE COOPERATION WITH INVESTIGATION AND MAINTAINED THAT EVIDENCE CAME ENTIRELY FROM TESTIMONY OF WOMAN WITH WHOM HE HAD "RELATIONSHIP OF MOST INTIMATE KIND FOR CONSIDERABLE TIME" AND WHICH SHE THOUGHT WOULD CONTINUE. WHEN I DID NOT, HER DESIRE FOR REVENGE MOTIVATED HER TO COLLABORATE WITH A JOURNALIST WHO WAS POLITICALLY INSPIRED FOR REVENGE, ACCORDING TO YADLIN. YADLIN REFUSES TO WITHDRAW HIS CANDIDACY FOR BOI POST, SAYING THAT SUCH ACTION WOULD BE TANTAMOUNT TO PLEADING GUILTY.

4. YADLIN'S MOST DAMAGING ADMISSION WAS THAT HE BOUGHT AN APARTMENT IN ANOTHER PERSON'S NAME WHO THEN CLAIMED IT WAS HER EXCLUSIVE RESIDENCE WHEN IT WAS SOLD IN ORDER TO EXEMPT IT FROM LAND BETTERMENT TAX. EMBASSY HAS BEEN TOLD BY SEVERAL CRIMINAL LAWYERS THAT UNDER ISRAELI LAW SUCH TAX EVASION IS CRIMINAL ACT.

5. ALSO DETAINED WITH YADLIN WERE MORDECHAI ELISON (FORMER SOLEL BONEH EXECUTIVE), SHLOMO GURI, YADLIN'S ATTORNEY IN APARTMENT TRANSACTION, KUPAT HOLIM'S ACCOUNTANT. THERE WERE REPORTS THAT ELISON HAD REQUESTED IMMUNITY FOR HIS TESTIMONY ABOUT INVOLVEMENT OF OTHER "PUBLIC FIGURES", BUT HE HAS NOT YET RECEIVED IT.

6. EMBASSY COMMENT: THERE IS GENERAL CONSENSUS THAT YADLIN WILL NOT BE NEXT BOI GOVERNOR. HE WILL PROBABLY NOT BE ABLE TO CONTINUE AS HEAD OF KUPAT HOLIM AND COULD END UP IN JAIL. REAL QUESTION IS EXTENT OF SCANDAL, AND RUMOR-MONGERS ARE HAVING A FIELD DAY. GOI DID NOT HELP CLARIFY SITUATION BY LAST SUNDAY'S DECISION TO DEFER ACTION. MOREOVER, IT NOW APPEARS THAT CABINET WILL CANCEL YADLIN'S APPOINTMENT AT NEXT SUNDAY'S MEETING. BUT GOI IS IN SAME BIND AS YADLIN: WITHDRAWING HIS CANDIDACY IS ADMITTING HIS GUILT. SEVERAL COMMENTATORS HAVE BEGUN TO CALL YADLIN AFFAIR ISRAEL'S WATERGATE AND HERE ARE PERSISTENT RUMORS THAT FURTHER EVIDENCE, DAMAGING TO HOUSING MINISTER OFER, WILL BE FORTHCOMING. IF SCANDAL CONTINUES LIMITED OFFICIAL USE

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AND IF OTHER GOI OFFICIALS INVOLVED, LABOR PARTY COULD SUFFER SIGNIFICANT EROSION IN ITS SUPPORT. EMBOFF HAS BEEN TOLD BY SEVERAL SOURCES THAT REAL CRIME COMMITTED WAS TRANSFER OF FUNDS FROM HISTADRUT-CONTROLLED COMPANIES ABROAD TO LABOR PARTY. IF THIS CHARGE IS TRUE AND BECOMES PUBLIC KNOWLEDGE, COMPLICATIONS FOR LABOR PARTY COULD BE OMINOUS. TOON

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